

Sunray Engineering Group Limited

新威工程集團有限公司

(8616.HK)

Business Overview

Sunray Engineering Group (“SEG” or “the Group”) is a Hong Kong-based building protection solution provider and its solutions integrate the provision of building protection works with a focus on waterproofing works; and the supply of building protection products. According to the Frost & Sullivan Report, the Group ranked second in the building protection work market in Hong Kong with a market share of approximately 3% in terms of revenue in FY2019.

The building protection works focus on waterproofing works and are complemented by flooring works and joint sealant works, where it is generally responsible for the project management of the projects. Its building protection works were carried out with the building protection products sourced and procured, and in various types of buildings in both public and private sectors such as residential buildings, commercial buildings and community facilities.

About supply of building protection products, the Group identify, source, promote and distribute suitable building protection products to customers. The building protection products can be broadly categorised into waterproofing products; tiling products; and flooring and other products. The Group was the distributor of nine brands covering more than 400 building protection products, which were sourced from Independent Third Party brand owners and manufacturers from Germany, Switzerland and the United States. Since 2011, it also supplied its own-brand "DP ChemTech" and "DP" products, which are sourced from selected Independent Third Party suppliers from different jurisdictions such as PRC, Taiwan and Singapore.

Basic Information

Offer Price

HK\$0.24 - \$0.28

Offer Size

Global Offering: 250,000,000 Shares (Pre-shoe) /
287,500,000 Shares (Post-shoe)

HK Offer Shares: 25,000,000

International Placing Shares: 225,000,000

Market Capitalisation

HK \$240m - \$280m (Pre-shoe)

HK \$277.5m - \$317.5m (Post-shoe)

HK Offer Application Period

31 Mar 2020 – 07 Apr 2020, Noon

Listing Date

23 Apr 2020

Board Lot

10,000 shares

Major Shareholders

Lam Ka Wing 75.00%

Sole Sponsor

Ample Capital

Financial Advisor

Donvex Capital

Joint Global Coordinators

Alpha Financial Group, Lego Securities

Joint Bookrunners and Joint Lead Managers

Alpha Financial Group, Lego Securities, Enhanced Securities



The Group's direct customers are principally main contractors and subcontractors of construction projects who engaged it as their building protection work provider; and/or purchase building protection products. Apart from direct customers, the Group also markets and promotes building protection products to architects, consultants and property owners.

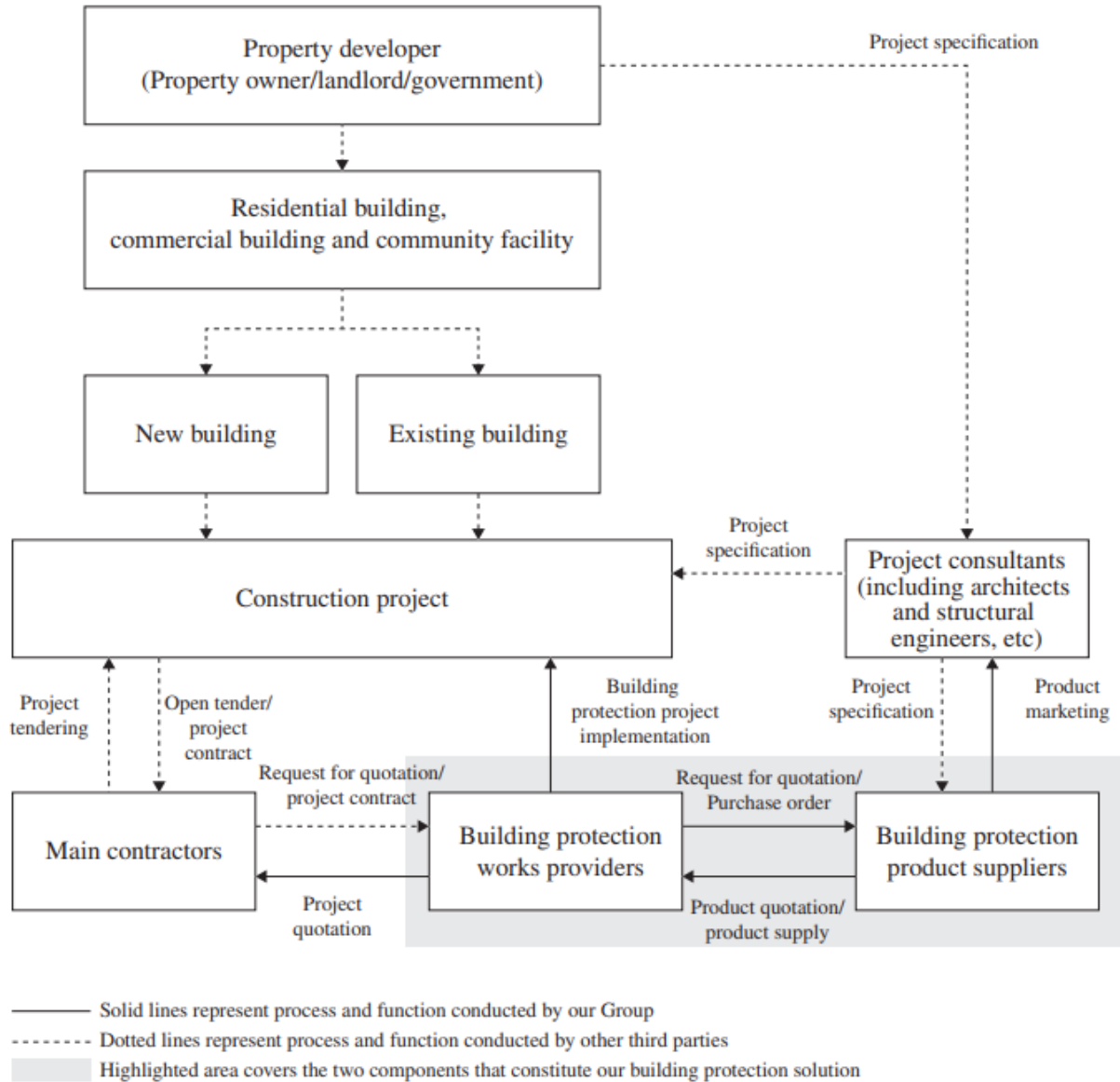


Figure 1: The Group's Business Model

Financial Summary

| | FY2018 | | FY2019 | | FP2018 | | FP2019 | |
|---|----------------|--------------|----------------|--------------|-------------------------|--------------|----------------|--------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 (Unaudited) | % | HK\$'000 | % |
| Provision of building protection works | | | | | | | | |
| -Hong Kong | 76,317 | 49.8 | 106,372 | 55.5 | 42,743 | 52.1 | 63,016 | 61.5 |
| -Macau | — | — | — | — | — | — | — | — |
| Supply of building protection products | | | | | | | | |
| -Hong Kong | 39,091 | 25.5 | 52,391 | 27.3 | 28,288 | 34.5 | 24,805 | 24.2 |
| -Macau | 37,829 | 24.7 | 32,968 | 17.2 | 11,008 | 13.4 | 14,628 | 14.3 |
| | <u>153,237</u> | <u>100.0</u> | <u>191,731</u> | <u>100.0</u> | <u>82,039</u> | <u>100.0</u> | <u>102,449</u> | <u>100.0</u> |

Table 1: Breakdown of the group's revenue derived from the type of the group's services by geographical locations

| | FY2018 | | FY2019 | | FP2018 | | FP2019 | |
|--|---------------|--------------|----------------|--------------|-------------------------|--------------|---------------|--------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 (Unaudited) | % | HK\$'000 | % |
| Provision of building protection works | | | | | | | | |
| - Waterproofing works | 64,551 | 84.6 | 93,693 | 88.1 | 37,522 | 87.8 | 55,494 | 88.1 |
| - Flooring works | 4,545 | 6.0 | 7,304 | 6.9 | 3,678 | 8.6 | 3,598 | 5.7 |
| - Joint sealant works | 7,221 | 9.4 | 5,375 | 5.0 | 1,543 | 3.6 | 3,924 | 6.2 |
| Total revenue from the provision of building protection works | <u>76,317</u> | <u>100.0</u> | <u>106,372</u> | <u>100.0</u> | <u>42,743</u> | <u>100.0</u> | <u>63,016</u> | <u>100.0</u> |

Table 2: Breakdown of the group's revenue by nature of building protection works

| | <u>FY2018</u> | <u>FY2019</u> | <u>FP2018</u> | <u>FP2019</u> |
|--|---------------|---------------|---------------|---------------|
| Sales volume | | | | |
| - Waterproofing products (unit) . . . | 48,900 | 44,400 | 20,200 | 21,800 |
| - Tiling products (unit). | 51,800 | 75,400 | 34,800 | 21,400 |
| - Flooring and other products (unit) | 2,300 | 2,300 | 2,000 | 100 |
| Average selling price (HK\$) | | | | |
| - Waterproofing products (per unit) | 1,059 | 1,146 | 1,253 | 1,275 |
| - Tiling products (per unit). | 464 | 448 | 387 | 537 |
| - Flooring and other products (per unit) | 473 | 297 | 260 | 1,340 |

Table 3: The sales volume and average selling price (the revenue divided by the respective sales volume) of the group's three major types of building protection products

| | <u>As at 31 March</u> | | <u>As at 30</u> |
|-------------------------------|-----------------------|-----------------|------------------|
| | <u>2018</u> | <u>2019</u> | <u>September</u> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>2019</i> |
| Current assets | 166,510 | 133,225 | 163,236 |
| Current liabilities | 52,685 | 36,413 | 50,927 |
| Net current assets | 113,825 | 96,812 | 112,309 |
| Net assets | 123,240 | 104,121 | 118,195 |
| Total assets | 177,992 | 141,840 | 170,280 |

Table 4: Selected information extracted from consolidated statements of financial position

| | <u>FY2018</u> | <u>FY2019</u> | <u>FP2018</u> | <u>FP2019</u> |
|---|-----------------|-----------------|--------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | <i>(Unaudited)</i> | |
| Net cash generated from operating activities. | 41,198 | 1,501 | 8,765 | 12,917 |
| Net cash (used in)/ generated from investing activities | (4,054) | (2,146) | 2,598 | (292) |
| Net cash used in financing activities | (17,357) | (57,960) | (12,194) | (2,885) |
| Net increase / (decrease) in cash and cash equivalents | 19,787 | (58,605) | (831) | 9,740 |
| Cash and cash equivalents at beginning of the year. | 70,089 | 89,876 | 89,876 | 31,271 |
| Cash and cash equivalents at end of the year | <u>89,876</u> | <u>31,271</u> | <u>89,045</u> | <u>41,011</u> |
| Operating cash flows before movements in working capital. | <u>31,184</u> | <u>39,715</u> | <u>16,074</u> | <u>21,763</u> |

Table 5: Selected information extracted from consolidated statements of cash flows



Reallocation of Shares Offered

In the event that the Placing Shares are fully subscribed or oversubscribed under the Placing:

| Times of HK Offer Shares Subscription | 15X - 50X | 50X - 100X | Over 100X |
|---|-----------|------------|-----------|
| % of total shares reallocated to HK Offer | 30% | 40% | 50% |

Use of Proceed

Based on the Offer Price of HK\$0.26 per Share (being the mid-point of the indicative Offer Price range of HK\$0.24 to HK\$0.28 per Share), the net proceeds of the Share Offer, after deduction of underwriting fees and other expenses payable by our Company in relation to the Share Offer, are estimated to be approximately HK\$29.0 million. The Group currently intends to use the net proceeds from the Share Offer in the following manner:

- Approximately HK\$2.8 million or approximately 9.8% to acquire additional machinery and equipment for building protection works;
- Approximately HK\$8.4 million or approximately 29.1% to expand the group workforce;
- Approximately HK\$9.0 million or approximately 31.0% to strengthen the group financial position for payment of upfront cost;
- Approximately HK\$8.7 million or approximately 30.1% to expand the group building protection product mix and continue to develop the group's own-brand "DP ChemTech" and "DP" products;

Risks Factors

- The recent outbreak of COVID-19 worldwide may result in the slowdown of global economy, which may affect the recoverability of their trade receivables, increase their impairment losses and significantly and adversely impact their business operation and financial performance.
- They derive their revenue from projects and purchase orders of a non-recurrent nature and there is no guarantee that their customers will provide them with new business or they will secure new contracts or new purchase orders.
- The Group determines the contract price based on their estimated time and costs involved in the project. An under-estimation or ineffective cost management may adversely affect the Group's financial results.
- They rely on their major subcontractors to carry out all labour-intensive works in their building protection works projects. Any material surges of their charges or any substandard work by their subcontractors will affect them to a large extent.
- The timing of their payment to suppliers may not match their receipt of payment from customers.
- The billing and settlement of their contract assets might be delayed due to reasons beyond their control.



- During the Track Record Period, the group experienced an increase in adjusted trade receivable turnover days and aged receivables, and any delays and/or defaults of certification of value of works completed and issuing the final accounts by their customers may confer upon the group an exposure to considerable credit risk and liquidity risk.
- Their business and results of operation are susceptible to any unfavourable change in their cost of sales and services, and the market conditions.
- Their historical growth rate, revenue and profit margin may not be indicative of their future growth rate, revenue and profit margin.
- They rely on independent third party suppliers for production of all their own-brand building protection products.
- They rely on brand owners and manufacturers for the supply of building protection products to them to satisfy their business operation needs. Failure to secure a steady supply of these products may adversely affect their results of business operations.
- Introduction of new building protection products in Hong Kong and Macau with similar characteristics with their building protection products may adversely affect their profit margin.
- Shortage of labour and increase of labour costs may affect their projects and their performance.
- There is no guarantee that they would not be subject to any claims in relation to defects of their building protection works or breach of contract as a result of delay, which may result in further costs to make good the defects, and/or deduction of the retention monies to be released and/or claims from their customers against them.
- Any material litigation and disputes may adversely affect the group's performance.
- Their operations are exposed to risks customary to the building protection work industry and their existing insurance coverage may not provide the group with adequate protection against these risks.
- Their business has to be operated with various registrations and certificates and the loss of or failure to obtain and/or renew any or all of these registrations and/or certifications could materially and adversely affect their business.
- They rely on key management personnel.
- There is no assurance that they will pay dividends in the future.
- They are exposed to foreign exchange rate fluctuations.
- Market conditions and trends in the construction industry and in the overall economy will affect their performance.
- They operate in a competitive environment.
- The state of economy in Hong Kong may adversely affect their performance and financial condition.
- The state of political environment in Hong Kong may adversely affect their performance and financial condition.
- Their future contracts may be caught by the proposed Security of Payment Legislation ("SOPL") for the construction industry.
- Conducting business in Macau involves certain political risks.
- Their business could be affected by the limitations of the Macau Pataca exchange markets.
- There has been no prior public market for their Shares and an active trading market for them.
- Shares may not develop or be sustained.
- Since there will be (i) a gap of several days between the closing of application lists and the Price Determination Date; and (ii) a gap of several days between the closing of application lists and the trading of the Offer Shares, holders of the Offer



Shares are subject to the risk that the price of the Offer Shares could fall during the period before the trading of the Offer Shares begins.

- The trading price and volume of their Shares may be volatile, which could result in substantial loss to their investors.
- Investors for their Shares will experience immediate dilution and may experience further dilution if they issue additional Shares in the future.
- Future disposal or perceived disposal of a substantial number of Shares of their existing Shareholders in the public market could materially and adversely affect the prevailing market price of their Shares.
- The interest of their Controlling Shareholders may not always coincide with the interest of the group and those of their other Shareholders.
- Investors may experience difficulties in enforcing their shareholders' rights because Company is incorporated in the Cayman Islands, and the protection to minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions.
- Possible setting of the Offer Price after making a Downward Offer Price Adjustment.
- Investors should read the entire prospectus and should not rely on any information contained in press articles or other media coverage regarding them and the Share Offer.
- Certain facts, forecast and other statistics in this prospectus obtained from publicly available sources have not been independently verified and may not be reliable.
- Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

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